Testimony of Paul Schwartz, NARFE
Before Senate Budget & Taxation Committee
Senate Bill 461 – Retirement Tax Elimination Act of 2023
March 1, 2023

Good afternoon. My name is Paul Schwartz and I am the Chair of the State Legislation Committee for the Maryland Federation of NARFE, the National Active and Retired Federal Employees Association and the more than 300,000 Federal employees and annuitants living in Maryland that NARFE represents.

We strongly support passage of SB 461 and let me tell you why:

–Senior migration to more tax friendly states is a real issue and should be a real concern to you and Maryland's economy.

–Retirees may retire to Florida for the weather, but they do not retire to Delaware or Pennsylvania for the weather.

–In Bankrate's July 2021 study, Maryland ranked last of the 50 states as the worst place to which to retire. After the passage of The Tax Elimination Act of 2022 last session, Maryland moved up to number 44. We need to keep the momentum going.

–This should not be too surprising since according to a March 2021 study in Wallet Hub, Maryland has the third highest personal income tax burden of all the states

–When Marylanders retire elsewhere, they take their tax money, buying power and community service with them

–I shared with you a few weeks ago the story of a recently retired military couple that had two military pensions plus social security, moved from Waldorf Maryland to Gettysburg Pennsylvania and saved $24,000.

–According to the latest Census data, Maryland lost population between 2020 and 2021 because of what they called out-migration (after accounting for births and deaths)

– Between 2012 and 2017 Maryland lost 59,432 residents in the 65 to 74 year old age group for an average annual loss of 11,886 seniors in this age group alone.

–Using the age distribution of seniors given in “Population Demographics for Maryland 2020, 2019”, the average loss of seniors of all ages in Maryland is estimated to exceed more than 22,000.

– This loss in population results in a loss of adjusted gross income for Maryland

–According to the latest annual United Van Lines National Movers Survey, 28% of those leaving Maryland cited retirement as a reason

–It should be noted that, in addition to the revenue that seniors generate, overall population also impacts receipt of federal grants and even the number of representatives we have in Congress

–With Maryland's own General Assembly's Spending Affordability Committee having projected an historic budget surplus of more than $4 billion at the close of fiscal 2022 (and with "structural surpluses" projected through 2027), now is the time to provide Marylanders with meaningful tax relief, tax relief that has been necessitated by the federal tax plan passed in December 2017 and eliminated or reduced so many of the middle class tax deductions

– During the last session we provided all legislators with a copy of a White Paper we prepared which details with data the true impact of senior migration on Maryland.

– Key points of the White Paper are captured in my written testimony.

THE COST OF SENIOR MIGRATION TO MARYLAND

Maryland had larger-than-average population losses, i.e., 59,432 residents in the 65 to 74-year old age group between 2012 and 2017,[1] for an average annual loss of 11,886 seniors in this age group. Using the age distribution of seniors given in "Population Demographics for Maryland 2020, 2019",[2] the annual loss of seniors of all ages for Maryland is 21,544. This loss in population results in a loss of adjusted gross income from Maryland – see figure 2. In fact, the data shows that this loss of population has a substantial and detrimental impact both on Maryland's economy and on the amount of federal grants that Maryland receives (see below). Thus, reform on senior taxation by the Maryland state legislature is in Maryland's best interest.

Impact on Maryland's economy. A study[3] commissioned by Maryland's governor and General Assembly found: "For every new elderly household moving into Maryland,

- one-half of a job is supported.
- over $65,000 in new income per household is created,
- nearly $10,000 in state and local tax revenues are generated,
- over $5,000 in local tax revenues are generated, and
- over $800 in local tax revenue surplus is generated."

These values are from the year 2006 and are based on an economic model (the IMPLAN input/output model). Adjusting for inflation,[4] the following values for the respective economic cost to Maryland in the year 2021 are, respectively, $85,800, $13,200, $6,600, and $1,056. Additionally, Maryland had larger-than-average population losses, i.e., 59,432 residents in the 65 to 74-year old age group between 2012 and 2017,[1] for an average annual loss of 11,886 seniors in this age group. Using the age distribution of seniors given in "Population Demographics for Maryland 2020, 2019",[2] the annual loss of seniors of all ages for Maryland is 21,544. This impact on Maryland's economy is shown in the following table.

For every new senior household moving into Maryland, the economy benefits	2006 dollars		With the loss of one senior household, Maryland's economy is hurt†
One-half of a job is created			One-half of a job is lost
New income	$65,000		-$85,000
State/local tax revenue generated	$10,000		-$13,200
Local tax revenue generated	$5,000		-$6,600
Local tax revenue surplus	$800		-$1,056

†Adjusted for inflation to 2021 dollars[4]

We estimate an annual loss of circa $194,000,000 to the Maryland and county treasuries due to senior migration. This estimate is made by multiplying the $13,200 (see table above) for state and local tax revenues generated (or lost) by 21,544, the annual loss of seniors of all ages for Maryland, and then by dividing by 1.47, an estimated value[5] for the size of a senior household. It should be recognized that a senior who migrates from Maryland pays no taxes in Maryland and no longer contributes to its economy. Additionally, the economic impact due to loss of seniors extends to all parts of Maryland's economy. *These economic effects are cumulative.*

Impact on federal grants. Maryland seniors who move out of state will impact negatively the federal grant amounts for Maryland. These grants are made through block grant programs in which each state receives a set amount of money from the federal government. The amounts of the block grants can be based on per capita or on the needs of the state. This includes SNAP (Supplemental Nutrition Assistance Program) and Medicaid. A study from the George Washington University Institute of Public Policy[6] states: "In Fiscal Year (FY) 2017, 316 federal spending programs relied on 2010 Census-derived data to distribute $1.504 trillion to state and local governments, nonprofits, businesses, and households across the nation. This figure accounted for 7.8 percent of Gross Domestic Product in FY2017. The bottom line: It's a lot of money, it's complicated, and it depends. In other words, census-guided spending makes up a large portion of the economy, the role of census-derived data in guiding that funding is not simple by any means, and the sensitivity of census-guided funding on state and local census accuracy differs greatly from program to program. In FY2016, Maryland received $16,300,000,000 through federal spending programs guided by data derived from the 2010 Census."[6] Dividing this value by a Maryland population of 5,773,552,[2] one arrives at the amount of $2,823 per person. Then, using the value of 21,554 for annual senior migration from Maryland (see above), the annual economic cost to the Maryland treasury due to loss of federal grants that are based only on population is $61,000,000.

Additional negative impacts. In addition to the losses due to decreased economic activity, loss of federal grants funds, and inability to tax those who have left Maryland (this includes snowbirds), there are other negative impacts to Maryland from losing seniors to other states that are not easy to assign dollar values to, such as the following.

- Seniors leaving the state can affect the number of *representatives in Congress* which depends on the state's population.
- Seniors are a major source of *volunteer efforts* which enhance the quality of life in Maryland.
- Seniors do not have *children in school*.
- *Seniors vote at a very high rate.*